

Direct Testimony

Of

Thomas Q. Smith

Water Engineering Program
Safety and Reliability Division
Illinois Commerce Commission

Utility Services of Illinois, Inc.

Application for Approval of Agreement
And Plan of Merger Among Utility Services of Illinois, Inc.
And the 23 Illinois Operating Subsidiaries of Utilities, Inc.

Docket No. 13-0618

March 12, 2014

WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Thomas Q. Smith. My business address is 527 East Capitol Avenue,
Springfield, Illinois 62701.

Q. Please describe your present position and related responsibilities.

A. I am presently employed as an Economic Analyst in the Water Engineering
Program of the Safety and Reliability Division of the Illinois Commerce
Commission ("ICC" or the "Commission"). My responsibilities include reviewing
and analyzing tariff filings related to rates, rules, regulations, and conditions of
service for water and sewer service; reviewing applications for certificates of
public convenience and necessity; reviewing information regarding the prudence
of Qualifying Infrastructure Plant ("QIP") investment costs; conducting
inspections of the records and the physical facilities of water and sewer public
utilities; reviewing requests for general increases in rates for water and sewer
service; reviewing tariff filings related to purchased water surcharge riders and
information sheets; reviewing tariff filings related to QIP surcharge riders and
information sheets; reviewing applications for approval of proposed
reorganizations; and presenting expert witness testimony in docketed
proceedings before the Commission. Prior to my transfer to the Water
Engineering Program, formerly known as the Water Department of the Financial
Analysis Division, I served as an auditor in the Commission's Accounting
Department.

24 **Q. Please describe your background and professional qualifications.**

25 A. I received a Bachelor of Arts Degree in Accounting from Michigan State
26 University. My prior experience includes seven years as an auditor with the
27 Michigan Public Service Commission. Subsequently, I was employed by
28 Wisconsin Southern Gas Company in the initial capacity of Senior Accountant -
29 Rate Specialist and later as Controller.

30

31 **Q. Have you previously testified before regulatory bodies?**

32 A. Yes, I have testified on many occasions before the Illinois Commerce
33 Commission, the Michigan Public Service Commission, and the Public Service
34 Commission of Wisconsin. During my career, I have testified regarding revenue
35 requirement, accounting, cost of capital, cost of service, rate design, and
36 operational issues.

37

38 **INTRODUCTION**

39 **Q. What is the purpose of this proceeding?**

40 A. On November 8, 2013, Utility Services of Illinois, Inc. ("USI") and each of the 23
41 Illinois operating subsidiaries ("Illinois Utilities") of Utilities, Inc. ("UI") filed an
42 application seeking approval for reorganization pursuant to Sections 7-101, 7-
43 102, 7-203, 7-204, and 7-204A of the Illinois Public Utilities Act (the "Act"). USI
44 and the Illinois Utilities are asking the Commission's approval to disband each of
45 the Illinois Utilities and to merge them with and into USI, the surviving
46 corporation. USI would then become a wholly-owned subsidiary of UI. The

ultimate owner of the Illinois Utilities will remain UI, only the form of ownership will change: from 23 operating utilities to a single operating utility in the form of USI.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to evaluate whether the proposed reorganization meets the requirements of Section 7-204 of the Act. Specifically, I will be examining Subsections 7-204 (b)(1), (b)(5), and (b)(6).

SECTION 7-204 REQUIREMENTS

Q. Operationally, do you believe that the proposed reorganization will not diminish UI's ability to provide adequate, reliable, efficient, safe, and least-cost public utility service to its customers, as required by Subsection 7-204(b)(1) of the Act?

A. The proposed reorganization should have no impact on the operations of the utility. (Joint Applicants Ex. 1.0 at 6:132-33.) Prior to reorganization, UI is providing water and sewer service to customers through 23 stand-alone operating systems: i.e., the current 23 utility companies. Following the reorganization, the 23 stand-alone systems will continue to provide service to customers. The only difference is that UI will own the 23 systems through a single entity, USI, rather than through the Illinois Utilities. Because the Illinois Utilities' relationship with Water Service Corporation will continue and not be affected by the proposed reorganization, USI will rely on essentially the same

70 management, technology, processes, and personnel that are providing service
71 today. (Joint Applicants Ex. 1.0 at 3-4:64-87, 8:163-65.) This reorganization will
72 not diminish the ability of UI to provide adequate, reliable, efficient, safe, and
73 least-cost service to customers.

74
75 **Q. If the reorganization is approved, will USI remain subject to all applicable**
76 **laws, regulations, rules, decisions and policies governing the regulation of**
77 **Illinois public utilities, as required by Subsection 7-204(b)(5) of the Act?**

78 A. USI states that it will remain subject to all applicable laws, regulations, rules,
79 decisions and policies governing the regulation of Illinois public utilities. (Joint
80 Applicants Ex. 1 at 5:102-4.) Following the proposed reorganization, USI will
81 continue to be subject to the jurisdiction of the Commission. USI will remain
82 subject to its Rules, Regulations, and Conditions of Service tariffs for water and
83 sewer service, which are on file with, and approved by, the Commission. I agree
84 that USI will remain subject to all applicable laws, regulations, rules, decisions,
85 and policies governing the regulation of Illinois public utilities, as required by
86 Subsection 7-204(b)(5) of the Act.

87
88 **Q. Do you believe the proposed reorganization will have no significant**
89 **adverse effect on competition in those markets over which the Commission**
90 **has jurisdiction, as required by Subsection 7-204(b)(6) of the Act?**

91 A. It is my opinion that this reorganization will have no material impact on
92 competition, adverse or other, because no competitor will be eliminated and no

concentration in the industry will occur as a result of the reorganization. (Joint Applicants Ex. 1.0 at 5:105-8.) There will be no change in the net customer base served, the certificated service areas, the services provided, or any other competitive condition following the reorganization compared with prior to the reorganization. Additionally, the only thing that is changing is the corporate structure. UI currently owns the operating entities and it will continue to own the operations through USI. From a competitive stand point, this reorganization is transparent.

RECOMMENDATIONS

Q. What are your recommendations to the Commission regarding the reorganization of the Illinois Utilities into USI?

A. I recommend the Commission find that the proposed reorganization meets the requirements of Subsections 7-204(b)(1), (b)(5), and (b)(6) of the Act and that the reorganization be approved.

I also recommend that the Commission order USI to file a new single set of Rules, Regulations, and Conditions of Service tariffs for both water and sewer service, within five (5) business days after the date of service of the final Order, with an effective date of not less than five (5) business days after the date of filing, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period, if necessary, and at that time, each

115 Illinois Utilities' Rules, Regulations, and Conditions of Service tariffs be
116 cancelled.

117

118 **Q. Does this conclude your prepared direct testimony?**

119 **A.** Yes, it does.